
SETTING GOALS TO MEET OBJECTIVES

by [Steve Brown](#)

Before we begin today, we take a moment to send our thoughts and prayers to those in Boston impacted by the horrific bombing attack that injured 144 and killed 3. We are saddened with the rest of the country by these events and know law enforcement officials are doing everything they can to catch these terrorists and bring them to swift justice.

As we seek normalcy, we will try to return our focus today to issues facing the banking industry. In particular, we wanted to help community bankers set goals as you seek creative ways to generate earnings. The age-old objective here is to generate fee income in addition to NIM.

Our first goal is to deepen customer relationships. Over time, great relationships reduce rate sensitivity and give you an opportunity to compete, as these customers are also more likely to give you a chance to keep their business when they are inevitably approached by competitors.

The next goal is to improve business customer stickiness and profitability. One way to do this is to layer in products outside of loans and deposits. These could include foreign wire transfers, lock box, repo, sweep and other services. While the data shows many customers still make their primary banking relationship decision based on lending activities, keeping these good customers closely tied to your bank through other products means you are always involved no matter what happens.

Our third goal is to give the customer what they want without taking on too much risk. This is driven by the low interest rate environment, which drives many business owners to seek out long term loans at fixed rates. As a business that makes perfect sense, but taking the risk on a bank balance sheet does not. Lending long and funding it short may generate much needed NIM right now, but it also carries substantial risk and it isn't necessary. You can accomplish the same thing by offering a fixed rate loan to your customer, but swapping the rate and keeping a fixed rate loan on your books for the next 1 or 2 years, but then having it float thereafter at an agreed upon spread to Libor. This bridges the low rate environment, allows your bank to capture more NIM now, but also protects you from rising rates in the future. There is no reason to take such substantial mismatch risk and we can teach you how to do this with a quick call.

Our final goal is to improve profitability by focusing on efficiency. For the typical community bank, salaries, benefits and premises expenses (branches, offices) account for around 75% of non-interest expenses. To compete with larger banks, community banks need to bring their efficiency ratio down from the 70% level to 60% (or even 55%). This takes a focused effort, but it is crucial to longer term profitability and performance. Set up an efficiency team, remove all road blocks, support the efforts as an executive team and embrace change. This will get you started and once things are moving they will be hard to stop.

Banking is a tough industry right now, but there is still room for improvement, so keep trying. Set goals, measure them as you go, tinker with things to make them better and keep moving. Be sure to track results, review them as a management team and report them to the board. Over time, you will eventually look back and see you have made tremendous progress.

BANK NEWS

M&A

Canadian Imperial Bank of Commerce (CIBC) will buy Atlantic Trust Private Wealth Management for \$210mm in cash. The deal adds \$20B in private wealth assets managed and 12 US locations for CIBC.

Q1 Earnings

Citigroup reported net income hit \$3.8B, a 30% increase from the same period last year. Revenue for the quarter climbed 3%, as Citi released \$652mm from the allowance for loan losses. NIM was flat YOY, operating expenses climbed 1% and revenue from securities trading / investment banking increased 31%.

Gold

Higher risk appetites, panic selling, Fed signals that QE could end by year-end, low inflation and other factors led to a 9% selloff in the precious metal, pushing prices down to the lowest since early 2011.

Taxes

Now that Apr. 15 is gone, it is interesting to note a report from the Journal of Accountancy finds the IRS will reduce staff hours to audits of large businesses by 18% vs. 2011 levels. Meanwhile, the number of IRS employees is down 23% since 1992 even as the number of tax returns has increased 27%.

New Branch

Wells Fargo announced a new branch it calls a "neighborhood store" that is about 1,000 to 2,000 square feet in size, has bankers carrying tablet computers, uses large screen kiosks instead of tellers and has movable walls that hide desk areas. Experts say the branches will cost less than 50% as much to operate as a traditional branch and be much less expensive to build.

Top 5 Social

Retail banks that scored in the Top 5 highest in Facebook "Likes", engagement, Twitter followers, tweets sent, YouTube view and YouTube subscribers by the Financial Brand in order are: Chase, Capital One, ICICI Bank (India), E*Trade Bank, Bank of America.

ATM Fees

The Government Accountability Office (GAO) said the amount of ATM surcharge fees charged by financial institutions has increased over the past 4Ys. The average surcharge fee increased 20% during this period (from \$1.75 in 2007 to \$2.10 in 2012).

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.